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Approved by:

Philip Shull

U.S. Embassy

Prepared by:

Ken Joseph

Report Highlights:

Argentine sugar production for MY2004 is forecast at 1.65 million tons, similar to MY2003. Although the sector worked efficiently to expand production, a significant drought in Tucuman will offset the expected increase. Due to the 70 percent peso devaluation, both mills and farmers enjoyed excellent returns in MY2003 and the same is expected for MY2004. Exports are projected to drop as surpluses of sugar will be tighter primarily due to a smaller carry-in from MY2003 due to larger exports. Production is expected to grow in the next 3-5 years as long as economic conditions do not change significantly. A higher output would be absorbed somewhat by larger domestic consumption as the country recovers from the current deep recession. Exports could increase, but the sector knows that the profitability is in the domestic market. A larger concentration at the farm, processing and marketing level is expected. Argentina could also become an important exporter of sugar-content products.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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<i>SECTION I. SITUATION AND OUTLOOK</i>	1
<i>SECTION II. STATISTICAL TABLES</i>	4

SECTION I. SITUATION AND OUTLOOK

Argentine sugar exports for MY2004 are forecast to drop to 210,000 tons as result of a smaller product surplus, primarily due to very low carry-in from the MY2003 crop. With the devaluation of early 2002, sugar exports are no longer done at a loss. Although mills prefer to sell to the more profitable domestic market, exporting sugar is now a reasonable business, especially when averaged with the very profitable US sugar quota. The current price of sugar for the local market is roughly US\$300 per ton, US\$ 380 per ton for the US TRQ (already deducted freight cost) and US\$190 per ton for export to world markets.

The 45,281 MT US sugar TRQ will be fulfilled in MY2004 and some 160,000 tons (raw value) of refined sugar will be shipped to the world market. Chile, which currently has large stocks, is expected to import from Argentina 20-30,000 MT, lower than previous years when roughly 60-80,000 MT were typically shipped. The balance will be exported to countries such as Nigeria, Ghana, Tunisia, Madagascar, Mali and Cuba, which were the main markets in MY2003. Last year the sector learned that it has to export in order to balance the local supply and demand to be able to maintain good prices throughout the entire crop season. We expect this will happen again in MY2004.

Sugar exports in MY2004 are expected to be distributed over a longer period of time than in MY2003 for the following reasons: a) mills are in a better financial situation after a very profitable MY2003, b) carry-in is insignificant, c) supply and demand are expected to be quite balanced and d) exports are not as attractive as last year. In MY2003 most shipments were made at the beginning of the crop year as local mills were in desperate need of financing which was unavailable due to the economic crisis. Therefore, mills began to export with very good returns (extremely high value of the dollar and still low domestic prices) and as much as they could in order to obtain fresh money and reduce carry-in stocks which eventually were going to put downward pressure on domestic prices. For the first time in years, the sector was able to self-finance the crop and reduced significantly their financial cost by not having to use costly warrants.

Exports in MY2003 were higher than previously forecast because excellent weather during the harvest resulted in higher production, and because exporting was such a good business that processors/refiners shipped most of their carry-in stocks.

The current export rebate on sugar is 4.05 percent and the export tax is 5 percent. Although the government is always tempted to revise these in order to collect more money, they are not expected to be modified in the near future.

Production for MY2004 (harvest begins in late May 2003 and ends by October 2003) is projected at 1.65 million tons (raw basis), the same as the previous year. Although planted area increased somewhat and the management of the plantations was very good, a significant drought affected Tucuman during mid-January and late March. Although difficult to estimate at this stage because plantations in this province show very different conditions depending on the area they are located, most sources expect a similar production to last year. However, final output will depend strongly

on the incidence of frosts during harvest. The condition of plantations in the northern provinces of Salta and Jujuy is good, as 100 percent of production is irrigated and the effects of a dry season were mitigated.

Cane producers in MY2003 had an excellent crop as yields were exceptional (no frosts and no rain during harvest) and returns were the best in years as sugar prices increased dramatically while costs of production increased very moderately (effect of the devaluation). Profitability of cane producers in MY2004 is expected to remain quite the same as last year but with higher costs of production and higher income (producers last year sold at the beginning of the harvest at low prices, but from mid-August onwards prices escalated continuously). The following table shows producers' average returns for MY2003 and MY2004 (the value of the dollar for MY2003 is calculated at 3.5 pesos and for MY2004 at 3.0 pesos), prices in US\$ per ton of cane:

	MY2003	MY2004
Gross Income (sale of sugar)*	\$8.96	\$13.53
Total cost**	\$5.71	\$10.33
Net Income per MT of cane	\$3.25	\$3.20
Average Yield (MT of cane per hectare)	50 MT Tucuman 75 MT Salta & Jujuy	50 MT Tucuman 75 MT Salta & Jujuy

* Producers in Tucuman, where most cane is produced by independent farmers (whereas in Salta and Jujuy is produced almost entirely by the mills), sell their cane under a payment in kind system. Sugar processors receive the cane at the mill and they pay on average 58 percent of the sugar produced. Tucuman's sugar recovery rate in MY2003 was 10.3 percent and the average selling price was US\$150 per ton of sugar.

** Includes inputs, labor, tilling, amortization of plantation, harvest, transportation to the mill and overhead costs.

Mills are also expected to make money in MY2004. Total cost for sugar delivered in Buenos Aires is expected to be roughly US\$180/200 per ton, while prices for the domestic market are expected at US\$250/270 per ton delivered in Buenos Aires. A financial cost has to be added as production is concentrated in 5 months and sales are distributed in 12 months.

As a result of the good profitability, we expect Argentine production to increase in the future. There was already vigorous investment last year both at the farm and processing level. Cane renovation in Tucuman, which in normal times is around 20 percent per year and that in the past few years was significantly lower, increased to roughly 25 percent. Even some 5,000 hectares of new plantations were planted in the country. Ag inputs were utilized in abundance. Most mills have been incorporating technology in the past several years and they are expected to continue to do so in the future. Most sources expect that as long as the economic conditions remain relatively similar to the current one, production increase will be primarily a result of higher productivity and not from a large expansion of planted acreage as there are good alternatives which in many cases have lower production costs, such as soybeans. Most cane renovation was done with new higher yielding varieties, which demand the use of a good technology package.

Mills had an excellent MY2003 with good returns, as shown above, and the excellent opportunity to convert their debt

into pesos while their income multiplied by 2-3 times. Therefore, most mills which were in a tight financial situation are now in a better condition. The marketing throughout the year is now in order as there are a few agreements among large processors to market sugar jointly. Moreover, the two largest mills in Salta and Jujuy continue to purchase large volumes of sugar from smaller and financially-weaker processors in Tucuman to take downward pressure off the market especially at the beginning of the harvest where many mills need to sell desperately to face processing costs. This is expected to continue in MY2004.

There are two mills producing organic sugar in Argentina and there could be a third one coming on soon in Tucuman. The two mills are producing combined roughly 10,000 tons which is almost entirely exported. Most sources state that they do not see a great expansion in organic sugar production, as the world demand is quite limited.

Sugar prices for MY2004 are projected to remain at similar levels to those of the last part of the previous harvest. Sources expect that during the first months of harvest (May-July), prices will be around 700 pesos per ton, increasing to 800-900 pesos a ton towards the end of the marketing year.

Although difficult to predict, especially with Presidential elections in April 2003, most economists believe that the value of the dollar will range between 3.0-3.50 pesos in 2003. However, the exchange rate in mid-April was 2.90 pesos to a dollar. There are very significant issues which the next government will have to deal with, which could further weaken the peso, such as rescheduling and payment of the foreign debt, and the increase of utility prices.

There are no policies focused directly on sugar production. One very significant Argentine policy which affected its global economic policy was to allow the peso to float. This resulted in a 70 percent devaluation which brought competitiveness and substitution of imported products. This change has proved to be very successful in some areas, especially in the agricultural sector.

The only one specific official support which the sugar sector has is the recently passed "Sugar Duty Protection Law" which sets an extra adjustable duty protection on imported sugar. This law is aimed at protecting the sector from Brazilian sugar imports, which the local sector claims it is highly subsidized through its gasohol program. This protection system has several years already under a decree, but sugar producing provinces were able to convert it into a law which can only be modified by Congress and not by the Executive. The local industry states that now they can operate without the threat of inexpensive Brazilian sugar flooding the market. There has recently been some cane producers' movements in Tucuman to re-install production quotas in order to limit and control production. However, most sources believe this will not happen.

Domestic consumption for MY2004 is forecast at 1.44 million tons (raw basis), similar to last year. Although some sources estimate that consumption could decrease somewhat because of the retail price increase of sugar, which went from 0.60 pesos a kilo to 1.30 a kilo, and to the loss of purchasing power and high unemployment. However, others state that consumption at the food/beverage sector could increase due to larger exports of sugar-content products and to the substitution of many imported products which are no longer in the market.

Stocks for MY2004 are projected to remain very low at roughly the country's need of 15 days consumption. We foresee this practice continuing in the future as mills will adjust supply and demand with exports, but always trying to

begin the next harvest with the least carry over possible.

SECTION II. STATISTICAL TABLES

PSD Table						
Country	Argentina					
Commodity	Centrifugal Sugar				(1000 MT)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		06/2001		06/2002		06/2003
Beginning Stocks	146	146	162	130	133	71
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	1600	1600	1550	1650	0	1650
TOTAL Sugar Production	1600	1600	1550	1650	0	1650
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	1	1	1	1	0	1
TOTAL Imports	1	1	1	1	0	1
TOTAL SUPPLY	1747	1747	1713	1781	133	1722
Raw Exports	65	63	45	50	0	50
Refined Exp.(Raw Val)	70	74	85	220	0	160
TOTAL EXPORTS	135	137	130	270	0	210
Human Dom. Consumption	1440	1470	1440	1430	0	1430
Other Disappearance	10	10	10	10	0	10
Total Disappearance	1450	1480	1450	1440	0	1440
Ending Stocks	162	130	133	71	0	72
TOTAL DISTRIBUTION	1747	1747	1713	1781	0	1722

PSD Table						
Country	Argentina					
Commodity	Sugar Cane for Centrifugal				(1000 HA)(1000 MT)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		06/2001		06/2002		06/2003
Area Planted	270	270	0	265	0	270
Area Harvested	260	260	0	255	0	260
Production	14900	15150	0	14750	0	15300
TOTAL SUPPLY	14900	15150	0	14750	0	15300
Utilization for Sugar	14900	15150	0	14750	0	15300
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	14900	15150	0	14750	0	15300

Export Trade Matrix			
Country	Argentina		
Commodity	Centrifugal Sugar		
Time period	MY	Units:	MT
Exports for:	2002		2003
U.S.	60445	U.S.	
Others		Others	
Chile	60569		
Colombia	6240		
Netherlands	1550		
Germany	1135		
Paraguay	1100		
Italy	823		
Canada	227		
UK	206		
France	191		
Uruguay	116		
Total for Others	72157		0
Others not Listed	74		
Grand Total	132676		0

Prices Table			
Country	Argentina		
Commodity	Centrifugal Sugar		
Prices in	Pesos	per uom	MT Ex Mill
Year	2002	2003	% Change
Jan	355	776	118.59%
Feb	382	778	103.66%
Mar	411	800	94.65%
Apr	466		-100.00%
May	480		-100.00%
Jun	486		-100.00%
Jul	478		-100.00%
Aug	534		-100.00%
Sep	682		-100.00%
Oct	758		-100.00%
Nov	758		-100.00%
Dec	763		-100.00%
Exchange Rate	2.9	Local currency/US \$	